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CHAPTER 5

STATEMENT OF NET COSTS0501 FORMAT FOR THE STATEMENT OF NET COSTS

050101. Format for the Working Version of the Consolidated Statement of Net Costs. The format presented in Figure 5-1 shall be used for the working version of the statements. The amounts shall be in dollars and cents (as shown in Figure 5-1) for all Department of Defense (DoD) working versions of the financial statements. Line numbers are included on the working version of statements.

DEPARTMENT OF DEFENSE [REPORTING ENTITY] CONSOLIDATED STATEMENT OF NET COSTS YEAR ENDED SEPTEMBER 30, CURRENT YEAR		
(Amounts in dollars and cents)	Current Year	Prior Year
1. Program Costs:		
A. Intragovernmental	\$ 720,000,000.00	\$ 618,900,000.00
B. With the Public	888,900,000.00	1,000,000,000.00
C. Total Program Cost	\$ 1,608,900,000.00	\$ 1,618,900,000.00
D. (Less: Earned Revenue)	(566,700,000.00)	(777,800,000.00)
E. Net Program Cost	\$ 1,042,200,000.00	\$ 841,100,000.00
2. Cost Not Assigned to Programs	200,000,000.00	300,000,000.00
3. (Less: Earned Revenues Not Attributable to Programs)	(20,000,000.00)	(30,000,000.00)
4. Net Cost of Operations	\$ 1,222,200,000.00	\$ 1,111,100,000.00
The accompanying notes are an integral part of these financial statements. See notes 1 and 19.		

Figure 5-1

050102. Format for the Working Version of the Consolidating Statement of Net Costs. The format presented in Figure 5-2 will be used for the working version of the statements. The amounts shall be in dollars and cents (not shown in Figure 5-2) for the DoD Agency-wide and Component statements. Line numbers will be included as shown in Figure 5-2.

DEPARTMENT OF DEFENSE [REPORTING ENTITY] CONSOLIDATING STATEMENT OF NET COSTS Year Ended September 30, Current Year						
(Amounts in millions)						
	GENERAL FUNDS			WORKING CAPITAL FUNDS		
1. Program Costs	Subentity A	Subentity B	Subentity C	Subentity D	Subentity E	Subentity F
A. Program A						
1. Intragovernmental	\$ 22.3	\$ 4.6	\$ 4.2	\$ 12.1	\$ 4.7	\$ 23.1
2. With the Public	14.3	4.5	200.2	13.6	5.6	15.1
3. Total Program Costs	\$ 36.6	\$ 9.1	\$ 204.4	\$ 25.7	\$ 10.3	\$ 38.2
4. (Less: Earned Revenue)	(7.1)	(9.1)	(5.1)	(22.1)	(4.6)	(12.9)
5. Net Program Costs	\$ 29.5	\$ 0.0	\$ 199.3	\$ 3.6	\$ 5.7	\$ 25.3
B. Program B						
1. Intragovernmental	\$ 200.1	\$ 5.6	\$ 5.7	\$ 3.2	\$ 3.5	\$ 5.8
2. With the Public	33.9	33.7	29.9	0.0	53.1	23.6
3. Total Program Costs	\$ 234.0	\$ 39.3	\$ 35.6	\$ 3.2	\$ 56.6	\$ 29.4
4. (Less: Earned Revenue)	(3.4)	(0)	(4.3)	(12.6)	(7.9)	(3.2)
5. Net Program Costs	\$ 230.6	\$ 39.3	\$ 31.3	\$ (9.4)	\$ 48.7	\$ 26.2
C. Other Programs						
1. Intragovernmental	\$ 21.9	\$ 119.1	\$ 33.1	\$ 5.5	\$ 2.8	\$ 18.9
2. With the Public	12.2	34.7	45.9	7.8	30.2	6.7
3. Total Program Costs	\$ 34.1	\$ 153.8	\$ 79.0	\$ 13.3	\$ 33.0	\$ 25.6
4. (Less: Earned Revenue)	(9.6)	(34.2)	(34.1)	(19.1)	(5.6)	(23.3)
5. Net Program Costs	\$ 24.5	\$ 119.6	\$ 44.9	\$ (5.8)	\$ 27.4	\$ 2.3
D. Total Program Costs						
1. Intragovernmental	\$ 2.2	\$ 3.4	\$ 13.9	\$ 22.2	\$ 5.5	\$ 6.7
2. With the Public	2.9	4.5	2.2	11.7	3.2	27.8
3. Total Program Costs	\$ 5.1	\$ 7.9	\$ 16.1	\$ 33.9	\$ 8.7	\$ 34.5
4. (Less: Earned Revenue)	(39.1)	(19.1)	(69.6)	(35.1)	(22.8)	(44.1)
5. Net Program Costs	\$ (34.0)	\$ (11.2)	\$ (53.5)	\$ (1.2)	\$ (14.1)	\$ (9.6)
2. Costs Not Assigned to Programs	\$ 19.3	\$ 3.9	\$ 40.2	\$ 22.1	\$ 45.9	\$ 21.9
3. (Less: Earned Revenues Not Attributable to Programs)	(2.1)	(0.0)	(1.5)	(6.1)	(3.2)	(4.4)
4. Net Costs of Operations	\$ 17.2	\$ 151.6	\$ 260.7	\$ 3.2	\$ 110.4	\$ 61.7

Figure 5-2

DEPARTMENT OF DEFENSE [REPORTING ENTITY] CONSOLIDATING STATEMENT OF NET COSTS Year Ended September 30, Current Year						
(Amounts in millions)						
	Subentity G	Subentity H	Combined Total	Intraentity Eliminations	Current Year Consolidated Totals	Prior Year Consolidated Totals
1. Program Costs						
A. Program A						
1. Intragovernmental	\$ 233.1	\$ 25.5	\$ 329.6	\$ 45.0	\$ 284.6	\$ 284.6
2. With the Public	45.3	90.9	389.5	5.0	384.5	384.5
3. Total Program Costs	\$ 278.4	\$ 116.4	\$ 719.1	\$ 50.0	\$ 669.1	\$ 669.1
4. (Less: Earned Revenue)	(12.8)	(4.9)	(78.6)	(3.0)	(75.6)	(75.6)
5. Net Program Costs	\$ 265.6	\$ 111.5	\$ 640.5	\$ 47.0	\$ 593.5	\$ 593.5
B. Program B						
1. Intragovernmental	\$ 9.2	\$ 3.4	\$ 236.5	\$ 45.0	\$ 191.5	\$ 191.5
2. With the Public	7.4	4.7	186.3	5.0	181.3	181.3
3. Total Program Costs	\$ 16.6	\$ 8.1	\$ 422.8	\$ 50.0	\$ 372.8	\$ 372.8
4. (Less: Earned Revenue)	(12.9)	(4.5)	(48.8)	(3.0)	(45.8)	(45.8)
5. Net Program Costs	\$ 3.7	\$ 3.6	\$ 374.0	\$ 47.0	\$ 327.0	\$ 327.0
C. Other Programs						
1. Intragovernmental	\$ 3.3	\$ 3.7	\$ 208.3	\$ 45.0	\$ 163.3	\$ 163.3
2. With the Public	5.1	11.2	153.8	5.0	148.8	148.8
3. Total Program Costs	\$ 8.4	\$ 14.9	\$ 362.1	\$ 50.0	\$ 312.1	\$ 312.1
4. (Less: Earned Revenue)	(3.4)	(60.5)	(189.8)	(3.0)	(186.8)	(186.8)
5. Net Program Costs	\$ 5.0	\$ (45.6)	\$ 172.3	\$ 47.0	\$ 125.3	\$ 125.3
D. Total Program Costs						
1. Intragovernmental	\$ 35.4	\$ 36.3	\$ 125.6	\$ 45.0	\$ 80.6	\$ 80.6
2. With the Public	54.2	67.8	174.3	0.0	174.3	174.3
3. Total Program Costs	\$ 89.6	\$ 104.1	\$ 299.9	\$ 45.0	\$ 254.9	\$ 254.9
4. (Less: Earned Revenue)	(21.8)	(9.9)	(261.5)	(3.0)	(258.5)	(258.5)
5. Net Program Costs	\$ 67.8	\$ 94.2	\$ 38.4	\$ 42.0	\$ (3.6)	\$ (3.6)
2. Costs Not Assigned to Programs	\$ 43.3	\$ 70.4	\$ 267.0	\$ 67.0	\$ 200.0	\$ 200.0
3. (Less: Earned Revenues Not Attributable to Programs)	(1.5)	(5.1)	(23.9)	(3.9)	(20.0)	(20.0)
4. Net Costs of Operations	\$ 383.9	\$ 229.0	\$ 1,468.3	\$ 246.1	\$ 1,222.2	\$ 1,222.2

Figure 5-2 (Continued)

050103. Published Statement of Net Costs Format. The DoD Agency-wide published statements (and the notes to the principal statements) shall display dollars rounded to millions with one decimal point. All Component statements (and the notes to the principal statements) shall display dollar amounts rounded to the nearest whole thousand on the final published principal statements. To avoid excessive workload associated with the resolution of rounding, accounting activities shall report amounts as dollars and cents on all versions of the principal statements and notes prior to submission by the reporting entity (these statements are referred to as working versions) of the final audited financial statements to the Office of the Deputy Chief Financial Officer, Accounting Policy Directorate (ODCFO(AP)).

0502 INSTRUCTIONS FOR THE PREPARATION OF THE STATEMENT OF NET COSTS

050201. General Instructions

A. Statement of Net Costs Format. The Statement of Net Costs is designed to show separately the elements of the net cost of the reporting entity's operations for the period. Formats are displayed using notional data to assist the user. All figures used on this financial statement should be preclosing trial balances.

B. Total Program Costs. Net cost of operations is the gross cost incurred by the reporting entity less any exchange revenue earned and other gains and losses from its activities. The gross cost of a program consists of the full cost of the outputs produced by that program plus any nonproduction costs that can be assigned to the program. Nonproduction costs are costs linked to events other than the production of goods and services. The net cost of a program consists of gross cost less related exchange revenues and other gains and losses. By disclosing the gross and net cost of the entity's programs, the Statement of Net Costs provides information that can be related to the outputs and outcomes of the programs and activities.

C. Complex Entities. The organizational structure and operations of some entities are so complex that to fully display their suborganizations' major programs and activities may require supporting schedules to supplement the information in the Statement of Net Costs. The Department identifies the DoD Components by the reporting entities described in Chapter 1, section 0106 of this volume. The Components further break out the consolidating statement as appropriate. Additional supporting schedules may be included in note 19.A., if necessary.

D. Programs Reported. The Department has identified performance measures based on the Department's missions and outputs. The Department does not, however, accumulate costs for major programs based on performance measures, in part because its financial processes and systems do not collect costs in line with newly established measures. Accordingly, the Department breaks out programs by the nine major appropriation groupings addressed in paragraph 050301 of this chapter. See Appendix A for the detailed list of appropriations/funds included in each grouping. Present programs vertically down one column. The DoD Agency-wide consolidating net cost statement shall present program appropriation groupings vertically down and suborganizations horizontally across.

E. Suborganization Programs. Ultimately, preparers of the Statement of Net Costs shall decide the exact classification of suborganizations and major programs based on the missions and outputs described in the entity's strategic and annual plans, the entity's budget structure, and the guidance for defining and structuring responsibility segments presented in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." If data currently are available at the program level, the reporting entities may provide such information as a supplemental schedule.

F. Reportable Costs. The Statement of Net Costs and related supporting schedules shall show the net cost of operations for the reporting entity as a whole and its suborganizations and programs. This can be accomplished by reporting by program: (1) the gross cost of goods and services provided to the public and government agencies (intragovernmental) at a price, (2) related exchange revenues and other gains and losses, (3) the excess of costs over exchange revenues and other gains and losses (net program costs), and (4) the gross cost of goods, services, transfers and grants provided to the public and government agencies without charge, and by reporting for the suborganization or entity as a whole the costs that cannot be assigned to specific outputs or programs and the exchange revenues that cannot be attributed to specific outputs or programs. Costs or revenue that cannot be attributed to specific outputs or programs should be discussed in the applicable footnote.

G. Illustrated Format. The Statement of Net Costs illustrated in this document serves as an example of how information can be displayed for an entity with a complex organizational and program structure, a limited number of programs carried out by more than one suborganization, and the majority of its programs carried out within a specific suborganization or responsibility segment.

H. Imputed Costs. Costs displayed on the Statement of Net Costs shall include certain imputed costs required by the Office of Management and Budget (OMB). All federal agencies are required to report imputed costs for the categories described below to ensure consistency across the government. Imputed costs represent costs that are paid in total or in part by other entities. Imputed costs are to be recognized to the extent that the SFFAS No. 4 requires them to be recognized in financial statements. For example, reporting entities are required to recognize the cost of pensions and other retirement benefit expenses in their financial statements. The amount recognized shall equal the service costs of their employees for the accounting period, less amounts contributed by the employees. The recognition of imputed costs is limited to four categories: (1) employees' pension benefits; (2) the health, life insurance, and other benefits for retired employees; (3) other post-employment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, and continued health care; and (4) losses in litigation proceedings related to the Judgment Fund not reimbursed by the Department. (See Federal Accounting Standards Advisory Board interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions," for additional information.)

1. Imputed Costs for Military Pension Expense. Each of the DoD reporting entities shall recognize an imputed cost that is equal to the reported employer entity pension expense for the accounting period (as computed using factors provided by the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R))), less any accounting period contributions by the Military Departments to the Military Retirement Fund. Imputed revenue and imputed expense for military pension reported in the Military Departments' audited financial statements shall be eliminated in the DoD Agency-wide financial statements. The administrative entity expenses shall be reported only in the Military Retirement Fund audited financial statements. The imputed costs for military pension expense shall not be included in the Federal Agencies' Centralized Trial-Balance System (FACTS) trial balance reported to the Department of the Treasury.

2. Imputed Costs for Military Health Benefits. Each of the DoD reporting entities shall recognize imputed costs that are equal to the employer entity expense for the military health benefits that is attributable to the Military Department (as computed using factors provided by the OUSD(P&R)) for the accounting period. Imputed revenue and imputed expense for military health benefits reported in the Military Departments' audited financial statements shall be eliminated in the DoD Agency-wide financial report. The administrative entity for the military health benefits is the OUSD(P&R). The administrative entity actual expenses shall only be reported in the DoD Agency-wide (Other Defense Organizations, General Funds) financial statements audited report.

050202. Line Item Instructions. In addition to the narrative below, see the general ledger crosswalk in Appendix D of this volume for a description of the accounts and attributes applicable to each line item.

A. Program Costs – Line 1. This line contains costs that include the full costs of the program outputs and consists of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to the program outputs. Program costs also include any nonproduction costs that can be assigned to the program but not to its outputs. The costs of program outputs shall include the costs of services provided by other entities whether or not the providing entity is fully reimbursed. See SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," for a detailed discussion of full costs and interentity costs. The Department has elected not to apply the full costing concept to selected programs (e.g., Base Realignment and Closure and environmental cleanup). The costs for these items, which are included with the reporting entities that receive the funding, shall be disclosed separately from other nonproduction costs, in note 19, if incurred. The cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets also are included on the Statement of Net Costs, reported by the entity that receives the funds, and disclosed in note 19. Material amounts related to stewardship assets are to be provided in the Required Supplemental Stewardship Information section of the financial statements in accordance with guidance contained chapter 11 of this volume. Also to be disclosed in note 19 are expenses imputed to the reporting entity. Finally, agencies shall consider differentiating other significant costs if by doing so the usefulness of the statements would be improved either

because the amount of a particular cost is large or because of its special nature. For example, when reporting on a program that makes transfer payments, it may be useful to differentiate between the transfer payments and administrative costs. Elements of other nonproduction costs are considered significant if the element represents more than 10 percent of the value of the line.

1. Intragovernmental – Line 1.A. This line contains costs that arise from the purchase of goods or services from other federal reporting entities. The effects of intraentity business transactions are eliminated in the reporting entity statements; and the effects of interfederal agency business transactions shall be identified and reported to the Department of the Treasury, Financial Management Service via the FACTS. See Chapter 13 of this volume for elimination reporting requirements.

2. With the Public – Line 1.B. This line contains costs that arise from purchases of goods and services from the public, such as contracted services, military/civilian pay and benefits, and purchases. In the Working Capital Fund, however, payments for military pay and benefits are actually made to the General Funds. For the Working Capital Fund reporting entity, military pay and benefits are actually paid to another fund and would meet the definition (both for expense and liability) as intergovernmental.

3. Total Program Cost – Line 1.C. Sum of lines 1.A. and 1.B.

4. Less: Earned Revenues – Line 1.D. This line contains revenues that are exchange revenues, which arise when a federal entity provides goods and services to the public or to another government entity for a price. The full amount of exchange revenues shall be reported on the Statement of Net Costs or supplementary schedule, regardless of whether the entity is permitted to retain the revenues in whole or in part. Any portion of exchange revenues of the entity that cannot be retained by the entity shall be reported as a transfer-out on the Statement of Changes in Net Position. An example is interest earned collected on delinquent receivables transferred to the U.S. Treasury upon collection. This line also includes other exchange gains and losses. See Chapter 13 of this volume for elimination reporting requirements.

a. Earned revenue should be deducted from the full cost of outputs or outcomes to determine their net cost unless it is not practical or reasonably possible to do so. If that cannot be done, earned revenue shall be deducted from the gross cost of programs to determine the net program costs or, if that is not practical or reasonably possible, from the costs of suborganizations to determine the suborganizations' net cost of operations.

b. There are no precise guidelines to determine the degree to which earned revenue reasonably can be attributed to outputs, outcomes, programs, or suborganizations. The attribution of earned revenues requires the exercise of managerial judgment. In exercising this judgment, it is important to give readers of the Statement of Net Costs with the ability to ascertain whether exchange revenues are sufficient to cover the costs incurred to produce the goods or services involved.

5. Net Program Costs – Line 1.E. Line 1.C. plus line 1.D. This line is the difference between a program's gross costs and its related exchange revenues. If a program does not earn any exchange revenue, there is no netting and the term used might be "total program costs."

B. Costs Not Assigned to Programs – Line 2. A reporting entity and its suborganizations may incur: (1) high level general management and administrative support costs that cannot be directly traced, assigned on a cause-and-effect basis, or reasonably allocated to segments and their outputs; and (2) nonproduction costs that cannot be assigned to a particular program. These costs are part of the entity and suborganization costs and should be reported on the Statement of Net Costs as "costs not assigned to programs." Also, include extraordinary items (gains/losses) on this line and if material disclose in note 19. A material component is any component that represents more than 10 percent of the value of the line.

C. Less: Earned Revenues Not Attributable to Programs – Line 3. Earned revenue that cannot be attributable to particular outputs or programs should be reported separately as a deduction in arriving at net cost of operations of the suborganization or reporting entity as a whole.

D. Net Cost of Operations – Line 4. This line is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. This amount represents the net cost of a suborganization or entity that is funded by sources other than exchange revenues. The financing sources for net cost of operations are reported on the Statement of Changes in Net Position. See Appendix B of this volume for required reconciliation.

0503 PROGRAM PRESENTATION

050301. The DoD Agency-wide Program Presentation. The program data provided on the Statement of Net Costs for the consolidated DoD Agency-wide financial statements shall be reported by major appropriation grouping until its financial processes and systems are upgraded. The appropriation groups to be reported are: (a) Military Personnel; (b) Operation and Maintenance; (c) Procurement; (d) Research, Development, Test and Evaluation; (e) Military Construction/Family Housing Construction; (f) Military Retirement Fund; (g) Civil Works; (h) Working Capital Funds; and (i) Other Programs. See Appendix A of this volume for the detailed list of appropriations and funds that are aggregated in each of the major appropriation groupings for the consolidating Statement of Net Costs.

050302. DoD Reporting Entities. Management of the DoD reporting entities identified in paragraphs 010601 may report the program distribution of net costs by existing entity program units or by appropriation grouping as specified in paragraph 050301. If management chooses a program distribution other than by the appropriation group as in paragraph 050301, a supplemental Statement of Net Costs by appropriation grouping shall be provided. This supplemental schedule is required in order to prepare the consolidated DoD Agency-wide Statement of Net Costs.